

**MINUTES
STATE BOARD OF FINANCE
JUNE 27, 2006
OFFICE OF THE OMB DIRECTOR
STATE HOUSE ROOM 212**

Members in Attendance:

Auditor Connie Nass
Charles Schalliol, OMB Director
Treasurer Tim Berry

Also in Attendance:

Debbie Hineline, Department of Education
Laura Phillips, Department of Education
Paul Lottes, Deputy Auditor
Mary Burres, Auditor of State's Office
Mike Smith, Budget Agency
Tony Armstrong, Deputy Budget Director
William Bogard, Budget Agency
Chad Sweeney, Indiana Economic Development Corp.
Steve Stombaugh, Aviation Division, IDOA

CALL TO ORDER

The meeting was called to order by OMB Director Chuck Schalliol.

APPROVAL OF MINUTES

Auditor Nass moved to approve the minutes from the May 16, 2006, meeting, Treasurer Berry seconded, and the minutes were unanimously approved.

FUNDING TRANSFERS TO INDIANA ECONOMIC DEVELOPMENT CORP.

1. Rolls-Royce Project.

OMB Director Schalliol stated that legislation had recently been passed allowing for orders by the Board to transfer appropriations to the Indiana Economic Development Corporation (IEDC) and he introduced Chad Sweeney, the CFO and legal counsel for IEDC, to discuss the Rolls-Royce Corporation project. Mr. Sweeney described the negotiations with Rolls-Royce that had been conducted over the past year and said that a proposal had been worked out as set forth in a "Definitive Agreement" whereby 150 jobs at Rolls-Royce that otherwise would leave the state would be retained, 450 new jobs would be created, and a Center of Excellence would be established creating another 150 jobs. Rolls-Royce would invest \$145 million in the project and the state would provide incentives of up to \$17 million. A representative of OMB distributed a proposed resolution to the Board setting forth the details supporting the transfer of funds, a copy of which is attached hereto as Exhibit A.

Auditor Nass and Treasurer Berry raised questions about the funding and jobs and Mr. Sweeney and OMB Director Schalliol provided the following additional information: (1) the \$145 million investment will be made by Rolls-Royce as follows: \$36 million before January 1, 2009; \$59 million between January 1, 2009 and January 1, 2011; and \$50 million between January 1, 2011 and January 1, 2016; (2) the total number of jobs filled by Rolls-Royce in Indianapolis would be 4750 by December 31, 2014; (3) the Center of Excellence would be operating by December 31, 2008; and (4) the state will distribute \$10 million to Rolls-Royce by July 7, 2006 and \$7 million by January 2, 2007. Mr. Sweeney added that \$8 million of the state funding would be used on employment-related expenditures and \$9 million would be used for capital improvements. He stated that the employment could have dropped to 3400 had this agreement not been reached.

Deputy Budget Director Armstrong indicated that if the goals set forth in the Definitive Agreement were not met, the funds would be returned to the state to be held in a special fund/center, allowing the Budget Agency to decide whether the money could be used by IEDC or returned to the General Fund. OMB Director Schalliol stated that the \$17 million payment would be a "forgiveable loan". Treasurer Berry asked whether there would be an interest rate attached to the loan and Mr. Sweeney responded that there would not be an interest rate.

Auditor Nass moved to approve the resolution, Treasurer Berry seconded the motion, and the motion was unanimously approved.

2. Industrial Research Liaison Program

Deputy Budget Director Armstrong described how the Industrial Research Liaison Program (IRLP) is used to assist small businesses. He stated that Indiana University had been handling the program but that I.U. wanted the IEDC to take over because I.U. is not comfortable with the funding appropriated to carry out the task. IEDC has taken over the program from I.U. The funding established for this program in the amount of \$249,964 will need to be transferred from the IRLP fund/center (1000/108560) to the administration fund/center of the IEDC (1000/102600).

Treasurer Berry moved to transfer the appropriation, Auditor Nass seconded the motion, and the motion was unanimously approved.

AVIATION CONSOLIDATION PLAN – FISCAL YEAR 2007

Director Schalliol updated the Board on the aviation consolidation activities discussed earlier in 2006 by the Board and stated that now the consolidated aviation division would need all of the aviation-related funding previously appropriated to the Indiana Department of Transportation, Indiana State Police, and the Department of Natural Resources for FY2007. Steve Stombaugh of the IDOA Aviation Division discussed the current status of state government's aircraft, pilots, scheduling, and use of funds. He stated that there are 14 state-owned aircraft and he will be selling 2 more. Eventually the fleet will contain 8 older and 4 new aircraft. There are 9 pilots on the staff including Mr. Stombaugh and 6 state troopers. Funds are being used to improve the

hangers and equipment. Mr. Stombaugh added that the 3 affected agencies have agreed with the appropriation transfers.

Auditor Nass moved to approve the appropriation transfers, Treasurer Berry seconded the motion, and the motion was unanimously approved.

INDIANAPOLIS DESEGREGATION DISTRIBUTIONS

At the request of the Department of Education the desegregation distributions to the following Indianapolis School Corporations were approved to be effective July 3, 2006. The July quarterly installment for desegregation represents one-fourth of the estimated expenses for 2005-2006 and totals \$11,170,909.12. These claims were submitted by seven public school corporations under the desegregation Order. Transfer tuition comprises \$6,805,790.62. The residual \$4,365,118.50 is transportation, other desegregation costs and transition support.

<u>MSD Decatur Twp.</u>	
Transfer Tuition	\$629,390.83
Regular Transportation	172,305.21
Extracurricular Transportation	83,599.75
Other Desegregation Costs	<u>458,597.21</u>
Total	1,343,893.00
<u>Franklin Township</u>	
Transfer Tuition	\$478,339.54
Regular Transportation	232,876.75
Other Desegregation Costs	<u>334,709.24</u>
Total	1,045,925.53
<u>MSD Lawrence Twp.</u>	
Transfer Tuition	\$495,329.13
Regular Transportation	75,167.27
Other Desegregation Costs	<u>169,207.27</u>
Total	739,703.67
<u>MSD Perry Twp.</u>	
Transfer Tuition	\$1,664,770.82
Regular Transportation	580,272.18
Other Desegregation Costs	<u>808,288.98</u>
Total	3,053,331.98
<u>MSD Warren Twp.</u>	
Transfer Tuition	\$1,382,702.52
Regular Transportation	210,488.50
Other Desegregation Cost	<u>321,227.92</u>
Total	1,914,418.94

<u>MSD Wayne Twp.</u>	
Transfer Tuition	\$2,155,257.78
Regular Transportation	164,217.87
Other Desegregation Costs	<u>502,535.35</u>
Total	2,822,011.00
<u>Indianapolis Public</u>	
Transition Support	<u>\$251,625.00</u>
Total	251,625.00

Debbie Hine gave a brief explanation regarding the payments to the schools. The amount for the transportation is an estimate, and the final numbers will be given to the Department of Education in August.

Auditor Nass moved to approve the distributions as set forth in the agenda, Treasurer Berry seconded, and the distributions were unanimously approved.

NEW OR OTHER BUSINESS

No new business was brought before the Board.

ADJOURNMENT

Auditor Nass moved to adjourn the meeting, Treasurer Berry seconded, the motion to adjourn was unanimously approved, and the meeting was adjourned.

/s/ Auditor Connie K. Nass

/s/ Charles Schalliol, OMB Director

/s/ Treasurer Tim Berry

Exhibit A

Resolution
Of the
State Board of Finance

WHEREAS, the Indiana Economic Development Corporation has entered into a Definitive Agreement with Rolls-Royce Corporation dated as of June 15, 2006;

WHEREAS, the Definitive Agreement provides that Rolls-Royce will make capital expenditures in the amount of at least \$145 million, retain 4000 jobs and create 750 additional jobs, and create a Center of Excellence with at least 150 jobs;

WHEREAS, the Indiana Economic Development Corporation has agreed to provide \$17 million in cash incentives to Rolls-Royce;

WHEREAS, the cash incentives provided by the Indiana Economic Development Corporation shall be used exclusively to fund capital expenditures by Rolls-Royce at or for the benefit of its facilities located in Indiana;

WHEREAS, the State Budget Agency has requested a transfer of \$17 million for the incentives to be provided to Rolls-Royce by the State Board of Finance;

WHEREAS, the State Budget Agency will transfer funds from funds reverted by the Indiana Department of Correction, the Indiana Economic Development Corporation, and the Lieutenant Governors' Office under authority granted by IC 4-9.1-1-7;

NOW THEREFORE, BE IT RESOLVED by the State Board of Finance that:

The State Budget Agency shall transfer \$17 million from the funds reverted by the Indiana Department of Correction, the Indiana Economic Development Corporation, and the Lieutenant Governors' Office to the Indiana Economic Development Corporation

for the purpose of providing the funds as an incentive to Rolls-Royce as required under the Definitive Agreement between Rolls-Royce and the Indiana Economic Development Corporation dated as of June 15, 2006, which funds shall be in an Indiana Economic Development Corporation/Rolls-Royce Incentive Fund. Any funds that Rolls-Royce might return to the State would be deposited into this fund center.

Resolution approved by a vote of: **three** in favor and **none** opposed on the 27th day of June, 2006.

/s/ Tim Berry
Treasurer of State of Indiana

/s/ Connie Nass
Auditor of State of Indiana

/s/ Charles Schalliol
Director of Office of Management and Budget